

**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**DEPARTMENT OF CORRECTION**  
**BUREAU OF PRISONS**  
**INTERNAL CONTROL PERFORMANCE AUDIT**

**JULY 1, 2004 – JUNE 30, 2005**

**FIELDWORK END DATE: MAY 30, 2006**

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# EXECUTIVE SUMMARY

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## **BACKGROUND**

The Office of Auditor of Accounts (AOA) selected the Bureau of Prisons (the Bureau) within the Department of Correction (DOC) to perform an internal control performance audit on its revenue generation and procurement processes. Testing was performed at the following institutions and sections within the Bureau:

- Delaware Correctional Center (DCC)
- Sussex Correctional Institution (SCI)
- Howard R. Young Correctional Institution (HRYCI)
- Inmate Construction (IC)
- Prison Industries (PI)

The objective of the audit was to determine if the Bureau's internal control structure governing revenue generation and procurement at the process, transaction, and application levels is adequate to safeguard the State's assets. The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) applicable to performance audits, issued by the Comptroller General of the United States.

## **AUDIT CONCLUSIONS AND OBSERVATIONS**

The objective of the audit was to determine if the Bureau's internal control structure governing revenue generation and procurement at the process, transaction, and application levels are adequate to safeguard the State's assets. AOA determined that the Bureau's internal control structure is adequate to safeguard the State's assets except for the following:

- **HRYCI Segregation of Duties:** HRYCI's Support Services Administrator maintains check registers, prepares checks and deposits, is an authorized signer, and reconciles the bank statements of all internal accounts with no review by management.
- **Central Business Office Authorization:** One employee within DOC's Purchasing Department had approval authority and should only have been assigned enter and edit capabilities.
- **IC Segregation of Duties:** The IC Correctional Construction Manager creates an invoice in Microsoft Word, sends the bill to the customer, receives payment from the customer, and makes the deposit at the bank. This results in a lack of segregation of duties.

In addition, AOA identified several performance improvement opportunities in the following areas:

- Policies and procedures of the institutions and sections are not updated to reflect current operating processes and/or do not include authorization, reconciliation, or segregation of duties. As a result, (a) processes may not be properly communicated and consistently followed and (b) there is no assurance that new personnel will have adequate guidance in performing their assigned tasks.

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# EXECUTIVE SUMMARY

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- Authorization: Approval of transactions and access to assets and records were not appropriately limited.
  - Possession of the Central Business Office facsimile signature stamp was not limited to the person whose signature was on the stamp. In addition, HRYCI improperly used a signature stamp on financial documents.
  - SuperCard spending limits were excessive, and SuperCards that were not in use were not set to “null” or “cancelled”.
  - There was no evidence of approval from the SCI Program Coordinator for program expenditures.
  - SCI did not observe established petty cash expenditure limits.
  - Released inmates from SCI were not required to sign any documentation denoting receipt of their funds.
  - PI did not securely maintain funds for deposit. Funds were maintained in an unlocked desk drawer until deposited.
- Reconciliation: DCC and HRYCI did not complete bank reconciliations in a timely manner. In addition, the Central Business Office did not complete monthly SuperCard reconciliations in a timely manner.
- A lack of segregation of duties exists within HRYCI and PI. Duties should be segregated to reduce the possibility of error or inappropriate action.
- System Access: The institutions’ and sections’ personnel are to have “view only” capabilities within DFMS. Two employees were noted to have capabilities above the authorized access.
- Instances of noncompliance with the State of Delaware *Budget and Accounting Manual* and/or generally accepted accounting practices were identified, including untimely deposits, late payment of invoices, untimely processing of Cash Receipt and Intergovernmental Vouchers, missing documentation, and inefficient and ineffective bookkeeping methods.

## **AGENCY RESPONSE**

DCC, SCI, HRYCI, IC, PI, and the Central Business Office responded to the findings and recommendations. The detail of the findings, recommendations, and auditee responses can be found in the Findings and Recommendations section of this report.

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# TABLE OF CONTENTS

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Audit Authority	1
Background	2
Objective, Scope, Methodology and Conclusions	4
Findings and Recommendations:	
Background	6
Delaware Correctional Center	8
Sussex Correctional Institution	19
Prison Industries	24
Howard R. Young Correctional Institution	29
Department of Correction Central Business Office	36
Inmate Construction	40
Distribution of Report	43
Appendix A – Control Strengths	A-1

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# AUDIT AUTHORITY

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Title 29, Del. C., c. 29 authorizes the Auditor of Accounts to perform postaudits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: The American Institute of Certified Public Accountants, which has issued generally accepted auditing standards; and the U.S. General Accounting Office, which has issued generally accepted government auditing standards.

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# BACKGROUND

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## **INTERNAL CONTROL**

The American Institute of Certified Public Accountants defines internal control as a process affected by an entity's board of directors, management, and other personnel. Internal control is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with laws and regulations

Internal control is a process that is affected by people expected to provide reasonable assurance regarding the achievement of the objectives of safeguarding assets and reliable financial reporting. Internal control provides reasonable assurance – not absolute assurance – regarding the achievement of an organization's objectives. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved, including cost/benefit realities, collusion among employees, and external events beyond an organization's control.

Controls are categorized as authorization; configuration/accounting mapping; exception/edit reporting; interface/conversion controls; key performance indicators; management review; reconciliation; segregation of duties; and system access.

## **DEPARTMENT OF CORRECTION (DOC)**

DOC's mission is to protect the public by supervising adult offenders by directing them to treatment, education, and work programs. DOC employs over 2,600 officers and staff in three bureaus: Management Services, Prisons, and Community Corrections. The Bureau of Management Services provides support services for the entire department. The Bureau of Prisons, the focus of this audit, operates five facilities housing offenders incarcerated by court order. The Bureau of Community Corrections supervises offenders after release from incarceration or upon direct sentence of a court in four work release facilities, two violation probation centers, and in the community. Mr. Stanley W. Taylor, Jr. is the Commissioner of DOC.

## **BUREAU OF PRISONS (BUREAU)**

The Bureau provides administrative support for the five institutions that house the detention, jail, and prison populations. Currently, as of July 12, 2006, these institutions house 5,811 inmates with an operating capacity of 5,359 beds. The design capacity for this space is 4,223 beds.

The Bureau has the following five correctional institutions:

- John L. Webb Correctional Facility
- Delaware Correctional Center
- Sussex Correctional Institution
- Delores J. Baylor Correctional Institution
- Howard R. Young Correctional Institution

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# BACKGROUND

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In addition to the five correctional institutions, the Bureau consists of the following sections:

- Bureau Chief – Prisons
- Transportation
- Prison Industries
- Inmate Construction
- Education

AOA selected the following institutions and sections within the Bureau to perform an internal control performance audit on the revenue generation and procurement processes:

- |  |  |
|--|--|
| • Delaware Correctional Center (DCC)               | Revenue generation and procurement processes * |
| • Sussex Correctional Institution (SCI)            | Revenue generation and procurement processes * |
| • Howard R. Young Correctional Institution (HRYCI) | Revenue generation and procurement processes*  |
| • Inmate Construction (IC)                         | Revenue generation process                     |
| • Prison Industries PI)                            | Revenue generation and procurement processes   |

*\* Testing of the revenue generation process at DCC, SCI, and HRYCI was limited to accounts held outside of DFMS.*

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# OBJECTIVE, SCOPE, METHODOLOGY & CONCLUSIONS

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## **OBJECTIVE**

The objective of the internal control performance audit was to determine if the Bureau's internal control structure governing revenue generation and procurement at the process, transaction, and application levels is adequate to safeguard the State's assets.

## **SCOPE**

The audit consisted of reviewing the internal controls surrounding the revenue generation and procurement processes of DCC, SCI, HRYCI, IC and PI for the audit period of July 1, 2004 through June 30, 2005. Spending history for SuperCard users was reviewed for the period of November 1, 2005 through May 1, 2006. Audit fieldwork was completed on May 11, 2006.

The revenue generation process includes the cash receipt process (including any cash and investment accounts held outside of the Delaware Financial Management System [DFMS]) and the accounts receivable process (including billing, tracking, recording, collection, write-off, and financial reporting – i.e. allowance for doubtful accounts). The procurement process includes contracting (including following State laws for procuring goods and services), expenditures (including cash accounts held outside of DFMS), and the accounts payable process (including checks, petty cash, ACH, and SuperCard payments).

## **METHODOLOGY**

AOA conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Audit procedures consisted of the following:

- Reviewing the institutions' and sections' written policies and procedures relative to the revenue generation and procurement processes including any accounts held outside of DFMS.
- Interviewing staff of the Bureau, institutions, and sections.
- Testing of records and processes to confirm our understanding and the effectiveness of controls. Testing techniques used included observation, inspection, system query, inquiry, corroborative inquiry, re-performance, and knowledge assessment.

The criteria used in the performance of this audit consisted of:

- The Committee of Sponsoring Organizations of the Treadway Commission's report: *Internal Control – Integrated Framework* (COSO Framework).
- State of Delaware *Budget and Accounting Manual* (Chapter II – Internal Control; Chapter VII – Disbursements; Chapter VIII – Collections and Accounts Receivable; Chapter XIII – Statewide Travel Policy; and Chapter XIV – SuperCard Purchase/Travel Program).
- Other relevant laws and/or standards governing internal control applicable to DOC, the Bureau, institutions, and sections.



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## OBJECTIVE, SCOPE, METHODOLOGY & CONCLUSIONS

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### CONCLUSIONS

The objective of the audit was to determine if the Bureau's internal control structure governing revenue generation and procurement at the process, transaction, and application levels is adequate to safeguard the State's assets. AOA determined that the Bureau's internal control structure is adequate to safeguard the State's assets except for the following:

- HRYCI Segregation of Duties: HRYCI's Support Services Administrator maintains check registers, prepares checks and deposits, is an authorized signer, and reconciles the bank statements of all internal accounts with no review by management.
- Central Business Office Authorization: One employee within DOC's Purchasing Department had approval authority and should only have been assigned enter and edit capabilities.
- IC Segregation of Duties: The IC Correctional Construction Manager creates an invoice in Microsoft Word, sends the bill to the customer, receives payment from the customer, and makes the deposit at the bank. This results in a lack of segregation of duties.

In addition, AOA identified several performance improvement opportunities in the following areas: policies and procedures; authorizations; reconciliations; segregation of duties; system access; and noncompliance with the State of Delaware *Budget and Accounting Manual* and generally accepted accounting practices.

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## FINDINGS AND RECOMMENDATIONS

### BACKGROUND

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#### **POLICIES AND PROCEDURES**

The State of Delaware *Budget and Accounting Manual* Chapter I states, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." An effective system of internal controls includes:

- Ensuring that all transactions are clearly documented, and the documentation is available for examination.
- Dividing the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions.

The State of Delaware *Budget and Accounting Manual* Chapter II states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

Managers are responsible for establishing and maintaining internal controls through written procedures. Written procedures are beneficial for the training of current and new employees and are a valuable resource in the event an employee leaves an organization. The procedures should include sufficient information to permit an individual who is unfamiliar with the operations to perform the necessary activities.

Documentation is an important aspect of control and communication. It generally provides (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

A lack of written procedures increases the risk of loss of funds, theft of assets, and disruption of operations.

#### **AUTHORIZATION**

Authorization is defined as, "the approval of transactions executed and access to assets and records in accordance with management's general or specific policies and procedures." Specific authorization relates to individual transactions; it requires the signature or electronic approval of a transaction by a person with approval authority. Assets must be safeguarded against unauthorized acquisition, use, or disposition.

The State of Delaware *Budget and Accounting Manual* Chapter II states, "Management's monitoring of and attitude toward adherence to control procedures is critical to making controls work." One of the control procedures cited is "Access to assets is limited in accordance with management's authorization."

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## FINDINGS AND RECOMMENDATIONS

### BACKGROUND

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#### **RECONCILIATION**

A reconciliation is a comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action, when necessary, to resolve differences. Differences should be identified, investigated, explained, and corrective action taken as necessary. Reconciliations should be documented and approved by management. Effective internal control procedures require that reconciliations be performed on a timely basis to facilitate the prompt detection and correction of unrecorded or improperly recorded transactions.

#### **SEGREGATION OF DUTIES**

Duties should be segregated among different people to reduce the risk of error or inappropriate action. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. When these functions cannot be separated, due to small departmental size, a detailed supervisory review of related activities is required as a mitigating control activity.

The State of Delaware *Budget and Accounting Manual* Chapter II requires that the responsibility for a transaction or activity be divided among different parties so that no one employee has complete control over the processing of transactions. Good business practices and sound internal control for segregation of duties reduce the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties.

A lack of segregation of duties increases the risk of errors and misappropriations. While ideal separation of duties is not always possible, an organization should strive to separate key functions and provide for increased oversight for the processing of transactions.

#### **SYSTEM ACCESS**

System Access is defined as the ability that individual users or groups of users have within a computer information system processing environment, as determined and defined by access rights configured in the system.

#### **COMPLIANCE WITH THE STATE OF DELAWARE BUDGET AND ACCOUNTING MANUAL AND GENERALLY ACCEPTED ACCOUNTING PRACTICES**

Noncompliance with the State of Delaware *Budget and Accounting Manual* and generally accepted accounting practices increases the risk of misappropriation of assets; disruption of operations; and chances that errors, theft, omissions, or other irregularities could go undetected.

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# FINDINGS AND RECOMMENDATIONS

## DELAWARE CORRECTIONAL CENTER

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### **FINDING #1 – LATE PAYMENT OF INVOICES**

#### ***Finding:***

Six out of 40 expenditures reviewed for the Delaware Correctional Center (DCC) Commissary Account and nine out of 38 DFMS DCC expenditures were not paid within 30 days of the date of the invoice due to staffing shortages and improper routing of the invoices.

The State Of Delaware *Budget And Accounting Manual* Chapter VII 10(a) states, "The State shall make every effort to issue payments to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services; if received after the invoice or bill. The agency must determine what constitutes "Received". It is recommended that agencies date and time stamp all incoming invoices or bills."

Untimely payment of invoices results in noncompliance with the State Of Delaware *Budget And Accounting Manual*.

#### ***Recommendation:***

DCC comply with the State Of Delaware *Budget And Accounting Manual* and pay invoices within 30 days.

#### ***Auditee Response:***

##### **Action Steps:**

- DCC Staff person (TBN) to order a Date/Time Received stamp to establish a timeframe of when the Institution receives invoices. Every document is to be stamped at the time it is received.
- DCC Staff person (TBN) to process payment on all invoices received by the 15<sup>th</sup> of every month before the close of that month. They will process payment on all invoices received after the 15<sup>th</sup> of every month before the 15<sup>th</sup> of the following month.
- Support Services Officer (TBN) to order a Date/Time Received stamp to establish a timeframe of when the Commissary receives invoices. Every document that is sent is to be stamped at the time it is received.
- Support Services Officer (TBN) is to process payment on all commissary invoices received by the 15<sup>th</sup> of every month before the close of that month. They are to process payment on all invoices received after the 15<sup>th</sup> of every month before the 15<sup>th</sup> of the following month.

##### **Resources:**

(2) Date/Time Received stamps – Purchased from DCC General Funds after July 1, 2006.

##### **Timeframe:**

All action steps are effective July 15.

##### **Evaluation:**

DCC Staff will monitor compliance on at least a monthly basis when completing DCC's Monthly Commissary Account Reconciliation.

# FINDINGS AND RECOMMENDATIONS

## DELAWARE CORRECTIONAL CENTER

DCC Staff will monitor compliance on at least a monthly basis when reviewing DCC's Monthly Budgetary Status Report and Monthly Commissary Account Reconciliation.

### **FINDING #2 – DEPOSITS NOT MADE TIMELY**

***Finding:***

Five out of seven deposits tested for DCC's Commissary Account and nine out of nine deposits tested for the Organizational Account were not made timely.

Commissary Account			Organizational Account		
Amount	Date Received	Date Deposited	Amount	Date Received	Date Deposited
\$ 27,164.99	09/24/04	09/28/04	\$ 415.00	06/08/04	07/07/04
\$ 33,259.71	12/30/04	12/31/04	\$ 382.00	07/23/04	08/04/04
\$ 38,802.06	03/04/05	03/09/05	\$ 168.00	09/13/04	09/24/04
\$ 35,476.56	05/06/05	05/10/05	\$ 28.00	10/22/04	11/04/04
\$ 28,542.24	06/24/05	06/27/05	\$ 45.96	12/13/04	12/22/04
<i>The purpose of these deposits was to transfer weekly sales from the Inmate Account to the Commissary Account</i>			\$ 76.00	02/03/05	02/10/05
			\$ 10.00	03/18/05	03/22/05
			\$ 111.00	04/29/05	05/11/05
			\$ 24.00	05/26/05	06/01/05
			<i>The purpose of these deposits was to transfer weekly sales from the Inmate Account to the Organizational Account</i>		

According to DCC's policy, checks written from the Inmate Account cannot be deposited until two authorized signers sign the check. The checks to reimburse the Commissary and Organizational Accounts are often prepared on Fridays when the availability of the authorized signers is limited. Therefore, checks are often not signed until the following business day. DCC was unable to explain deposits that were made more than one week after receipt.

Two out of two deposits tested for DCC's Employee Fund Account were not made timely.

Employee Fund		
Amount	Date Received	Date Deposited
\$3,114.76	The deposits tested were vendor checks for November and December (one of the vendor checks was received January 7, 2005; the other vendor check was not stamped as received).	01/19/05
\$3,316.00	The deposits tested were vendor checks for April and May (neither stamped received) and a check from the State Treasurer's Office dated May 31, 2005.	06/29/05

The vendor checks are received on a monthly basis; however, they are held and deposited two at a time rather than on the day of receipt.

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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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The State of Delaware *Budget and Accounting Manual* Chapter VIII states, "agencies...shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

Untimely deposit of funds results in noncompliance with the State of Delaware *Budget and Accounting Manual*. In addition, for interest bearing accounts, DCC did not earn interest on the undeposited funds.

***Recommendation:***

DCC comply with the State of Delaware *Budget and Accounting Manual* and ensure that deposits are made timely.

***Auditee Response:***

Action Steps:

- DOC Staff is to write checks from the Inmate Account to the Commissary Account before noon.
- DOC Staff is to separate those specific checks from the others written and obtain signatures on them separately. This will ensure those checks do not get held-up by being mixed into a large pile of inmate pay-to's.
- After two signatures are obtained, DOC Staff is to hand-carry the Commissary Account checks to Support Service Officer.
- Support Service Officer is to complete a deposit slip and take the checks to the bank the same day that it is received.
- DOC Staff is to write checks from the Inmate Account to the Organizational Account before noon.
- DOC Staff is to separate those specific checks from the others written and obtain signatures on them separately. This will ensure those checks do not get held-up by being mixed into a large pile of inmate pay-to's.
- After two signatures are obtained, DOC Staff is to hand-carry the Organizational Account checks to Administrative Specialist I (TBN).
- Administrative Specialist I (TBN) is to complete a deposit slip and take the checks to the bank the same day that she receives them.
- Employee Fund Treasurer is to date stamp all checks received for deposit to establish a timeframe of when the check is received at the Institution.
- Employee Fund Treasurer is to complete a deposit slip and take the check(s) to the bank the same day that they are received.

Resources:

Employee Fund Treasurer needs to be designated.

Timeframe:

All action steps are effective immediately.

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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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**Evaluation:**

Support Service Officer will monitor DOC Staff's compliance by reviewing the date on the Commissary Account checks each time they are received.

Administrative Officer (TBN) will monitor Support Services Officer's (TBN) compliance on at least a monthly basis when completing DCC's Monthly Commissary Account Reconciliation.

Administrative Specialist I (TBN) will monitor DOC Staff's (TBN) compliance by reviewing the date on the Organizational Account checks each time they are received.

Support Services Officer (TBN) will monitor Administrative Specialist I's (TBN) compliance on at least a monthly basis when completing DCC's Monthly Organizational Account Reconciliation.

Support Services Officer (TBN) will monitor the Employee Fund Treasurer's compliance on at least a monthly basis when completing DCC's Monthly Employee Fund Account Reconciliation.

Manager of Support Services will monitor Administrative Officer (TBN) and Support Services Officer (TBN)'s compliance on at least a monthly basis when reviewing DCC's Monthly Commissary Account, Organizational Account, and Employee Fund Account Reconciliation's

### **FINDING #3 – RECONCILIATIONS**

***Finding:***

Monthly reconciliations of DCC's Commissary Account (two), Inmate Account (two), Employee Fund Account (one), Organizational Account (one), and DFMS were tested for timeliness and review. The reconciliations were not signed and dated by either the preparer or reviewer. Due to lack of signatures and dates, it could not be determined if the reconciliations were prepared timely or if the reconciliations were reviewed.

Effective internal control procedures require that account reconciliations be performed on a timely basis to provide reasonable assurance that cash assets agree with recorded activity and to facilitate the prompt detection and correction of unrecorded or improperly recorded transactions. Untimely preparation and review of reconciliations could result in untimely identification and resolution of errors and/or inappropriate transactions.

***Recommendation:***

DCC prepare and review account reconciliations within 15 days of month end and sign and date the reconciliations to provide evidence of timely preparation and review.

***Auditee Response:***

**Action Steps:**

- Manager of Support Services to revise the Account Reconciliation Forms to provide a signature and date block for both the staff member preparing the reconciliations and the person reviewing the reconciliations.

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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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- Administrative Officer (TBN) to complete the Commissary Account Reconciliation, sign and submit to Manager of Support Services by the 8<sup>th</sup> of each month.
- Support Services Officer (TBN) to complete the Organizational Account and Employee Fund Account reconciliations, sign and submit to Manager of Support Services by the 8<sup>th</sup> of each month.
- Manager of Support Services to review the reconciliation's, sign and submit original to the DOC Controller and a copy to Deputy Warden Burris by the 10<sup>th</sup> of each month.

Resources:

None

Timeframe:

Revised Account Reconciliation Forms to be completed and in use for September 06 reconciliations.

Evaluation:

Manager of Support Services will monitor Administrative Officer (TBN) and Support Services Officer (TBN) compliance when reviewing the account reconciliations.

Deputy Warden II will monitor Manager of Support Service's compliance when reviewing copy of account reconciliations submitted to DOC Controller.

#### **FINDING #4 – OUTSTANDING CHECKS**

***Finding:***

A review of the March 2005 bank reconciliation for DCC's Commissary Account revealed two outstanding checks greater than six months.

Commissary Account		
<u>Check #</u>	<u>Check Date</u>	<u>Amount</u>
12763	03/26/04	\$ .65
12919	07/02/04	\$ 239.36

A review of the October 2004 and April 2005 bank reconciliations for DCC's Inmate Account revealed numerous outstanding checks dating back to July 3, 2003 and July 9, 2004, respectively.

The State of Delaware *Budget and Accounting Manual*, Chapter VII 11(c) states, "No check or draft issued by the State Treasurer shall be honored after the expiration of six months from the date of issuance."

Untimely resolution of outstanding checks could result in noncompliance with the State of Delaware *Budget and Accounting Manual*.



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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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***Recommendation:***

DCC investigate and resolve outstanding checks in a timely manner and make appropriate adjustments to accounting records.

***Auditee Response:***

**Action Steps:**

- Administrative Officer (TBN) to identify any unresolved outstanding check issues when completing the Monthly Commissary Account Reconciliation. Administrative Officer is to work with Support Services Officer (TBN) to resolve the issues with the bank by the 12<sup>th</sup> of every month.
- Support Services Officer (TBN) to identify any unresolved outstanding check issues when completing the Monthly Organizational Account Reconciliation. Support Services Officer is to work with Administrative Specialist I (TBN) to resolve the issues with the bank by the 12<sup>th</sup> of every month.
- Support Services Officer (TBN) to identify any unresolved outstanding check issues when completing the Monthly Employee Fund Account Reconciliation. Support Services Officer is to work with the Employee Fund Account Treasurer to resolve the issues with the bank by the 12<sup>th</sup> of every month.

**Resources:**

Employee Fund Treasurer needs to be designated.

**Timeframe:**

All action steps are effective immediately.

**Evaluation:**

Administrative Officer (TBN) will monitor the Commissary Account outstanding check issues on at least a monthly basis when completing the Monthly Commissary Account Reconciliation.

Support Services Officer (TBN) will monitor the Organizational Account outstanding check issues on at least a monthly basis when completing the Monthly Organizational Account Reconciliation.

Support Services Officer (TBN) will monitor the Employee Fund Account outstanding check issues on at least a monthly basis when completing the Monthly Employee Fund Account Reconciliation.

Manager of Support Services will monitor the Commissary Account, Organizational Account, and Employee Fund Account outstanding check issues on at least a monthly basis when reviewing the Monthly Reconciliation's.

#### **FINDING #5 – VOIDED CHECKS**

***Finding:***

Review of 100% of checks voided during fiscal year 2005 for the Commissary Account disclosed that although the signature blocks on voided checks were cut off, "VOID" was not written across the checks. Review of checks voided during fiscal year 2005 for the Inmate Account disclosed checks that were not voided in compliance with DCC's policy.

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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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DCC's policies for internal accounts require the following for voided checks:

- Removal of the signature section of the check.
- "VOID" written across the face of the check.

DCC employees' lack of attention to detail resulted in noncompliance with DCC's policies.

***Recommendation:***

DCC personnel comply with established policies and procedures and ensure voided checks are properly mutilated by removing the signature section of the check and writing "VOID" across the face of the check to prevent further alterations or reuse.

***Auditee Response:***

Action Steps:

- Support Services Officer to remove the signature block and write "VOID" across the face of all Commissary Account voided checks.
- DOC Staff to remove the signature block and write "VOID" across the face of all Inmate Account voided checks.
- Administrative Specialist I (TBN) to remove the signature block and write "VOID" across the face of all Organizational Account voided checks.
- Employee Fund Treasurer to remove the signature block and write "VOID" across the face of all Employee Fund Account voided checks.

Resources:

Employee Fund Treasurer needs to be designated.

Timeframe:

All action steps are effective immediately.

Evaluation:

Administrative Officer (TBN) will monitor the Commissary Account voided checks on at least a monthly basis when completing the Monthly Commissary Account Reconciliation.

Support Services Officer (TBN) will monitor the Organizational Account voided checks on at least a monthly basis when completing the Monthly Organizational Account Reconciliation.

Support Services Officer (TBN) will monitor the Employee Fund Account voided checks on at least a monthly basis when completing the Monthly Employee Fund Account Reconciliation.

Manager of Support Services will monitor the Commissary Account, Organizational Account, and Employee Fund Account voided checks on at least a monthly basis when reviewing the Monthly Reconciliation's.

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# FINDINGS AND RECOMMENDATIONS

## DELAWARE CORRECTIONAL CENTER

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### **FINDING #6 – SUPERCARD**

#### ***Finding:***

SuperCards issued to DCC staff were not deactivated in a timely manner. Five travel cards each had spending limits of \$2,000.

DCC policy requires that travel cards not currently in use be set to null status. Due to DCC oversight, although the five cards were not in use, the status of the cards was not set to null.

DCC did not notify the Department of Correction's (DOC) SuperCard Administrator at the completion of employees' travel. Not changing cards to null when not in use exposes the State to a greater potential loss in the event of card misuse.

#### ***Recommendation:***

DCC notify the DOC SuperCard Administrator immediately upon an employee's return from travel. The DOC SuperCard Administrator immediately change the card status to null upon notification from DCC.

#### ***Auditee Response:***

##### **Action Steps:**

- Manager of Support Services will submit written request to Bureau Chief of Management Services to upgrade Administrative Officer's (TBN) access to Works to allow her to view all of the DCC cardholders SuperCard account information.
- DOC Staff (TBN) will notify Administrative Officer (TBN) and Manager of Support Services via e-mail within two business days of an employee's return from travel.
- Manager of Support Services will forward that e-mail to DOC SuperCard Administrator Bureau Chief of Management Services within two business days requesting the employee's SuperCard be returned to "Null."

##### **Resources:**

Upgrade in Administrative Officer's (TBN) Works access.

##### **Timeframe:**

Manager of Support Services will send e-mail requesting Works upgrade for Administrative Officer (TBN) by close of business today [immediately].

All action steps are effective immediately.

##### **Evaluation:**

Administrative Officer (TBN) will monitor DCC employee's SuperCard status on at least a monthly basis when completing the Monthly Works Reconciliation's.

Manager of Support Services will monitor DCC employee's SuperCard status on at least a monthly basis when reviewing the Monthly Works Reconciliation's.

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# FINDINGS AND RECOMMENDATIONS

## DELAWARE CORRECTIONAL CENTER

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### **FINDING #7 – POLICIES AND PROCEDURES**

#### ***Finding:***

DCC's written policies and procedures for internal accounts are outdated and do not adequately detail the processing and approval of payments and deposits. Policies obtained were last updated as follows:

Employee Fund Account - 4/12/2004  
Commissary Account - 4/5/1991  
Inmate Account - 6/12/1997  
Organizational Account - 3/13/1981

Managers are responsible for establishing internal controls through written policies and procedures. Written procedures are beneficial for the training of current and new employees and are a valuable resource in the event an employee leaves DCC. Policies and procedures should be updated regularly and include sufficient information to permit an individual who is unfamiliar with DCC's operations to perform necessary activities. The State of Delaware *Budget and Accounting Manual* Chapter II states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

Lack of accurate and current, written policies and procedures results in insufficient policies and procedures as well as possible confusion of DCC staff.

#### ***Recommendation:***

DCC update policies and procedures for internal accounts to properly and adequately detail the processing and approval of transactions. Policies should include:

- The identification of positions/individuals who (a) maintain the records of the accounts, (b) authorize transactions, (c) reconcile the accounts, and (d) review the reconciliations;
- How accounts are maintained (manual ledgers, accounting software, etc.);
- Detailed procedures related to revenues and deposits;
- A description of required forms (Pay-To slips, etc.) and the authorizations necessary for the forms; and
- Limitations of the accounts such as expenditure types, balance requirements, etc.

#### ***Auditee Response:***

##### **Action Steps:**

- Manager of Support Services to update all DCC Policies and Procedures regarding accounts and submit to the Warden for review and signature no later than November 1, 2006.
- Manager of Support Services to review all DCC Policies and Procedures regarding accounts and submit any revisions/updates to the Warden for review and signature no later than November 1 annually.
- Employee Fund to review By-Laws and submit revision to the Warden for review and signature no later than November 1, 2006.

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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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Resources:

Employee Fund Secretary needs to be designated.

Timeframe:

All action steps are due no later than November 1, 2006 and at least annually thereafter.

Evaluation:

Manager of Support Services will monitor Employee Fund's compliance with the 2006 revisions and at least annually thereafter.

The Warden will monitor Manager of Support Service's compliance with the 2006 revisions and at least annually thereafter.

#### **FINDING #8 – ACCOUNTING SYSTEM**

***Finding:***

The current method of maintaining the internal accounts at DCC is tedious and antiquated. DCC currently has four internal accounts. A summary of the annual volume of transactions is as follows:

<u>Account</u>	<u># of checks</u>	<u>\$ of checks</u>	<u># of deposits</u>	<u>\$ of deposits</u>
Inmate Account	5,500	\$ 1,715,244.32	333	\$ 1,749,793.10
Commissary Account	447	\$ 1,641,080.16	66	\$ 1,530,837.40
Organizational Account	28	\$ 10,324.97	86	\$ 11,882.27
Employee Fund Account	20	\$ 7,785.82	7	\$ 9,250.51

DCC uses manual check registers, consisting of paper and Microsoft Excel registers, to maintain the accounts. Because of the volume of transactions, the maintenance of manual check registers is neither effective nor efficient.

Management's responsibility is to ensure accounting transactions are accurate, cost effective, and efficiently maintained. The manual method decreases the efficiency of staff and increases the risk of inaccurate data.

***Recommendation:***

To maintain accurate accounting records in an efficient manner, DCC should consider purchasing accounting software. Many accounting software products are relatively inexpensive and can provide a multitude of benefits to the accounting staff resulting in increased efficiency and accurate data. Accounting services provided by companies such as Western Union (which provides accounting services for numerous prisons across the nation) should also be analyzed and considered for management of the inmate accounts. DCC can research this topic by networking with other prisons within the nation for additional suggestions. DCC should also consider moving all external accounts into the State's PeopleSoft accounting system when it is implemented.

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## FINDINGS AND RECOMMENDATIONS

### DELAWARE CORRECTIONAL CENTER

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***Auditee Response:***

Action Steps:

- Administrative Officer (TBN) and Manager of Support Services will consult with Department of Correction MIS staff to research accounting software such as QuickBooks and to request the implementation of inmate account module in DACS as soon as possible.
- Manager of Support Services will make a recommendation to The Warden along with a price quote no later than August 15, 2006.

Resources:

Funding for any approved software for Commissary Account would be paid for from that account.

Funding for any approved software for Employee Fund account would be paid for from that account.

Funding for any approved software for Organizational Account would be paid for from DCC General Funds.

(Programs such as QuickBooks are estimated to be under \$500 each)

Timeframe:

Consultation with DOC MIS staff no later than July 15, 2006.

Recommendation and price quote to The Warden no later than August 15, 2006.

Evaluation:

The Warden will monitor the Manager of Support Services compliance with the accounting software recommendations.

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# FINDINGS AND RECOMMENDATIONS

## SUSSEX CORRECTIONAL INSTITUTION

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### **FINDING #1 – DOCUMENTATION**

#### ***Finding:***

Sussex Correctional Institution (SCI) did not maintain adequate supporting documentation for nine out of 20 deposits tested for the Inmate Program Account. In addition, four out of 20 deposits were not made in a timely manner.

The State of Delaware *Budget and Accounting Manual* Chapter VIII states, " agencies...shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

The inmate programs collect money over a period of time before submitting money for deposit. The greenhouse, one of the inmate programs, maintains a sales sheet to accompany the funds; however, the funds were not submitted for deposit once \$100 was reached. Other inmate programs have submitted funds for deposit without supporting documentation.

Untimely deposit of funds results in noncompliance with the State of Delaware *Budget and Accounting Manual*. In addition, for interest bearing accounts, SCI did not earn interest on the undeposited funds. Lack of supporting documentation increases the risk of incorrect recording of transactions.

#### ***Recommendation:***

SCI comply with the State of Delaware *Budget and Accounting Manual* and ensure that deposits are made timely. SCI ensure that adequate supporting documentation accompanies all deposits.

#### ***Auditee Response:***

New Sales Record forms have been created to record all funds collected for the individual program accounts. Bank deposit bags have been obtained from the bank and distributed to each account so deposits will be made on a daily basis as funds are collected. New deposit reconciliation forms have been created and will be kept with the bank statements.

### **FINDING #2 – AUTHORIZATION**

#### ***Finding:***

As a result of oversight, five out of 19 disbursements tested for SCI's Inmate Program Account did not have evidence of authorization from the program's representative or staff counselor.

Authorization is defined as the approval of transactions executed and access to assets and records in accordance with management's general or specific policies and procedures. Specific authorization relates to individual transactions; it requires the signature or electronic approval of a transaction by a person with approval authority. SCI's Program Coordinating Council *Funding Request Procedures* requires approval of funding and supplies which is initiated by the inmate program representative and the authorized staff counselor who fill out and sign a supplies request form.

Without proper approval, SCI cannot ensure that transactions are appropriate.

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## FINDINGS AND RECOMMENDATIONS

### SUSSEX CORRECTIONAL INSTITUTION

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***Recommendation:***

SCI ensure that the appropriate authorizing signatures be obtained before documents are processed.

***Auditee Response:***

New Expenditure Authorization Forms have been created and distributed to each program staff advisor. Funds from the account will not be disbursed without a signed authorization form.

**FINDING #3 – PETTY CASH**

***Finding:***

Testing of SCI's Petty Cash Box for the months of August and October 2004 and January, March and June 2005 revealed six expenditures over \$25. This results from employee error. The highest expenditure reviewed during that period was \$31.16.

SCI policy limits disbursements from the Petty Cash Box to \$25.

***Recommendation:***

SCI adhere to the established petty cash expenditure limit.

***Auditee Response:***

Any requests for reimbursements that exceed the \$25.00 limit will be processed on a Personal Expense Reimbursement form (PE).

**FINDING #4 – SUPERCARD**

***Finding:***

SuperCards issued to SCI staff were not cancelled after the completion of travel. One employee's card was set to a status of "null." The other employee's card reflected travel during April 10-12, 2006; as of May 8, 2006, the card status had not been changed from the travel credit limit of \$2,000.

SCI policy requires the cancellation of an individual's SuperCard after the completion of travel.

SCI did not notify the Department of Correction's (DOC) SuperCard Administrator at the completion of employees' travel. Noncompliance with SCI policy exposes the State of a greater potential loss in the event of card misuse.

***Recommendation:***

SCI notify the DOC SuperCard Administrator immediately upon an employee's return from travel. The DOC SuperCard Administrator immediately change the card status upon notification from DCC. SCI consider revising the policy to require that travel cards not currently in use be set to null status, rather than void. This will avoid the need to request new cards for employees that travel more than once.



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## FINDINGS AND RECOMMENDATIONS

### SUSSEX CORRECTIONAL INSTITUTION

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***Auditee Response:***

The Travel SuperCard that was not cancelled remained valid because there was a question on two of the receipts, which resulted in the card not being cancelled in a timely manner. SCI will insure travel cards not currently in use be set to null status.

**FINDING #5 – ACCOUNTING SYSTEM**

***Finding:***

The current method of maintaining the internal accounts at SCI is tedious and antiquated. SCI currently has four internal accounts. A summary of the annual volume of transactions is as follows:

<u>Account</u>	<u># of checks</u>	<u>\$ of checks</u>	<u># of deposits</u>	<u>\$ of deposits</u>
Inmate Account	3,242	\$ 1,109,324.08	364	\$ 1,139,496.80
Commissary Account	528	\$ 787,178.78	121	\$ 760,696.94
Inmate Program Account	187	\$ 27,224.12	183	\$ 27,703.16
Employee Fund Account	24	\$ 2,212.72	4	\$ 2,492.98

SCI uses manual check registers, consisting of paper and Microsoft Excel registers, to maintain the accounts. Because of the volume of transactions, the maintenance of manual check registers is neither effective nor efficient.

Management's responsibility is to ensure accounting transactions are accurate, cost effective, and efficiently maintained. The manual method decreases the efficiency of staff and increases the risk of inaccurate data.

***Recommendation:***

To maintain accurate accounting records in an efficient manner, SCI should consider purchasing computerized accounting software. Many accounting software products are relatively inexpensive and can provide a multitude of benefits to the accounting staff resulting in increased efficiency and accurate data. Accounting services provided by companies such as Western Union (which provides accounting services for numerous prisons across the nation) should also be analyzed and considered for management of the inmate accounts. SCI can research this topic by networking with other prisons within the nation for additional suggestions. SCI should also consider moving all external accounts into the State's PeopleSoft accounting system when it is implemented.

***Auditee Response:***

With the anticipated installation of DACS for the inmate accounts, purchasing a computerized software package is premature. We will revisit this issue after DACS has been installed. SCI Administration will consult with DOC MIS staff to research accounting software such as Quick Books and the implementation date of the inmate of the account module in DACS.

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# FINDINGS AND RECOMMENDATIONS

## SUSSEX CORRECTIONAL INSTITUTION

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### **FINDING #6 – POLICIES AND PROCEDURES**

#### ***Finding:***

SCI's written policies and procedures for internal accounts are outdated and do not adequately detail the processing and approval of payments and deposits. Policies obtained were last updated as follows:

Employee Fund Account- 6/13/2001  
Commissary Account - 4/28/2003  
Inmate Account - 7/1/1992  
Inmate Project Account - 12/20/2005

Managers are responsible for establishing internal controls through written policies and procedures. Written procedures are beneficial for the training of current and new employees and are a valuable resource in the event an employee leaves SCI. Policies and procedures should be updated regularly and include sufficient information to permit an individual who is unfamiliar with SCI's operations to perform necessary activities. The State of Delaware *Budget and Accounting Manual* Chapter II states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

Lack of accurate and current, written policies and procedures results in insufficient policies and procedures as well as possible confusion of SCI staff.

#### ***Recommendation:***

SCI update policies and procedures for internal accounts to properly and adequately detail the processing and approval of transactions. Policies should include:

- The identification of positions/individuals who (a) maintain the records of the accounts, (b) authorize transactions, (c) reconcile the accounts, and (d) review the reconciliations;
- How accounts are maintained (manual ledgers, accounting software, etc.);
- Detailed procedures related to revenues and deposits;
- A description of required forms (Pay-To slips, etc.) and the authorizations necessary for the forms; and
- Limitations of the accounts such as expenditure types, balance requirements, etc.

#### ***Auditee Response:***

- Support Service Administrator to update all SCI Policies and Procedures regarding accounts and submit to the Warden for review and signature no later than November 1, 2006.
- Support Service Administrator to review all SCI Policies and Procedures regarding accounts and submit any revisions/updates to the Warden for review and signature no later than November 1 annually.
- SCI's employee fund by law was updated on April 20, 2006. A new two-year contract was signed with a new vendor to provide service for the institution starting July 1, 2006.

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# FINDINGS AND RECOMMENDATIONS

## SUSSEX CORRECTIONAL INSTITUTION

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### **FINDING #7 – INMATE DISBURSEMENTS**

***Finding:***

Cash payments made from SCI to released inmates were logged in a book. Although the inmates were present at the time of receipt of the cash payment, they were not required to sign any documentation of receipt. The checks written to the released inmates were recorded by dollar amount; however, the check number was not listed in the logbook.

Validation and capture are widely accepted as elements of good control and should be used by management and financial managers. Validation ensures that recorded transactions represent real transactions. Capture ensures that all transactions are recorded.

By not requiring inmates' signatures for receipt of cash payments, there is an increased risk of insufficient evidence in the event of an inmate's allegation of not receiving funds. Not having check numbers listed in the logbook results in incomplete capture of transactions.

***Recommendation:***

SCI staff include the date, inmate's name and/or identification number, check number, dollar amount, and any other relevant information in the logbook. SCI require the inmate to sign for the receipt of funds.

***Auditee Response:***

A new form has been created to capture: date, inmate name, SBI number, dollar amount, check number, and signature lines for staff and inmate.

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# FINDINGS AND RECOMMENDATIONS

## PRISON INDUSTRIES

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### **FINDING #1 - LATE PAYMENT OF INVOICES**

***Finding:***

Sixteen of 41 expenditures tested at Prison Industries (PI) were not paid within 30 days of the invoice due to the shortage of staff.

The State Of Delaware *Budget And Accounting Manual* Chapter VII 10(a) states, "The State shall make every effort to issue payments to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services; if received after the invoice or bill. The agency must determine what constitutes "Received". It is recommended that agencies date and time stamp all incoming invoices or bills."

Untimely payment of invoices results in noncompliance with the State of Delaware *Budget and Accounting Manual*.

***Recommendation:***

PI comply with the State of Delaware *Budget and Accounting Manual* and pay invoices within 30 days.

***Auditee Response:***

PI will make every effort to issue payments to vendors within 30 days of a receipt of a valid invoice/packing slip combination. Since the FY05 audit the PI business office has been extensively using state purchasing cards to pay invoices, and this has resulted in payments to the vendors in a timelier manner. Prison Industries is in the process of hiring a new Accounting Specialist to replace the one hired in October of 2005, and then promoted to DCC, May 29, 2006. The anticipated date of hire is July 28, 2006.

### **FINDING #2 - PI FILING SYSTEM**

***Finding:***

- PI could not locate ten of 12 "Statements of Open Intergovernmental Vouchers."
- A correspondence folder is maintained for documentation of collection efforts; however, the folder has no apparent method of organization.
- Eighteen of 36 intergovernmental voucher documents tested at PI (the selling agency) were not processed by the receiving agency within 30 days of the creation of the IV.

The State of Delaware *Budget and Accounting Manual* Chapter VIII C states, "Each agency shall keep a detailed ledger of all receipts under such appropriate headings, classifications and arrangements as prescribed by the Budget Director (i.e., budget unit, appropriation and revenue code). All invoices, bills, statements, letters, vouchers and other documents pertaining to these receipts shall be preserved and systematically filed by each agency (29 Del. C. §6504)."

PI's Accountant II maintains the "Statements of Open Intergovernmental Vouchers" and the correspondence folder. The Accountant II recently moved into another office, delaying the filing of

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## FINDINGS AND RECOMMENDATIONS

### PRISON INDUSTRIES

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documentation. The lack of organization of collection documentation has resulted in insufficient monitoring of outstanding IV's and a delay in the collection process.

***Recommendation:***

PI systematically file monthly reports and maintain collection correspondence in an organized manner.

***Auditee Response:***

PI will systematic file monthly reports and maintain collection correspondence in an organized manner.

PI will improve its IV tracking system with the continued use of aging reports, and will establish a collections log of correspondence and contacts. Collection letters (or e-mail) will be sent out following 45 days of the invoice date, and every 15 days after that until the account is settled. System in place by September 1, 2006.

#### **FINDING #3 – UNTIMELY DEPOSITS**

***Finding:***

Three out of three cash receipts documents (CR's) tested at PI were not processed on the date of deposit. Two were not deposited on the day of receipt. The timeliness of the third could not be determined due to lack of supporting documentation.

	<u>Date Funds</u>	<u>Deposit</u>	<u>CR Process</u>
<u>Amount</u>	<u>Received</u>	<u>Date</u>	<u>Date</u>
\$ 100.00	05/17/05	05/19/05	05/26/05
\$ 925.00	Unknown	12/10/04	12/17/04
\$ 1,636.18	12/28/04	01/06/05	01/19/05

State of Delaware *Budget and Accounting Manual* Chapter VIII 5 states, "A report of cash receipts (CR) will be submitted for each day's deposits by all agencies and schools whose employees are authorized to accept remittances on behalf of the State Treasurer. A cash receipt(s) should be prepared for all deposit tickets with the same bank encoded date. The encoded date of deposit should be entered as the CR transaction date (in the CR header)." In addition, "All monies...are to be deposited on the day of receipt...(or) when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

Untimely deposits and preparation of CR's results in noncompliance with the State of Delaware *Budget and Accounting Manual*. In addition, differences in the dates of deposits and the dates on the CR's complicate the monthly bank reconciliation process.

***Recommendation:***

PI comply with the State of Delaware *Budget and Accounting Manual* and ensure that deposits are made timely. PI prepare CR's on a timely basis using the date of deposit. PI maintain supporting documentation for transactions.

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## FINDINGS AND RECOMMENDATIONS

### PRISON INDUSTRIES

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***Auditee Response:***

PI will seek a solution to making timely deposits through the use of technology that will allow automatic check processing. CR's will be prepared on a timely basis as required. Equipment is to be installed and functional by October 1, 2006.

**FINDING #4 – UNTIMELY BILLINGS**

***Finding:***

Two of 37 intergovernmental vouchers reviewed at PI were not prepared by PI within 30 days of the sale of goods or completion of the requested work.

<u>Date IV Prepared</u>	<u>Date of Sale/ Work Completed</u>
03/11/05	02/02/05
08/09/04	07/06/04

Good accounting practices require timely billing upon completion of services or delivery of goods. Staff shortages resulted in untimely billings, delaying the receipt of funds.

***Recommendation:***

PI ensure timely billings upon completion of services or delivery of goods.

***Auditee Response:***

PI will ensure billings are timely through ongoing review of shop completed work order information, IVs that have been prepared and submitted to the central business office for processing, and IVs that have cleared the system. Initiate process by October 1, 2006.

**FINDING #5 – ACCOUNTING SYSTEM**

***Finding:***

The current method of tracking work orders, job costs, and revenues is tedious and antiquated. Invoices are created in MS Word and IV's are tracked using an Access Database. A summary of the annual volume of transactions for PI is as follows:

<u>Type of Transaction</u>	<u># of documents</u>	<u>\$ of documents</u>
CR	171	\$ 315,887.63
IV (seller)	1,543	1,326,409.26
PV	304	3,855,237.00
IV (buyer)	419	1,660,406.36

Management's responsibility is to ensure accounting transactions are accurate, cost effective, and efficiently maintained. The manual method decreases the efficiency of staff and increases the risk of inaccurate and/or incomplete data.

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# FINDINGS AND RECOMMENDATIONS

## PRISON INDUSTRIES

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***Recommendation:***

In order to maintain accurate accounting records in an efficient manner, PI should consider purchasing accounting software. Many accounting software packages are relatively inexpensive and can provide a multitude of benefits to the accounting staff resulting in increased efficiency and accurate data.

***Auditee Response:***

The primary function of the database is to enter and manage the data to provide the required printed State of Delaware IVs (Access reports) for the purpose of billing state agencies. The database is used also for aging reports, but follow-up on IVs is typically managed manually through the DFMS system using photocopies of the IVs submitted to the DOC Central Business Office. PI has purchased a copy of the Enterprise Version of QuickBooks and will work to make this system available at the shop levels. Anticipated completion date, June 20, 2007.

### **FINDING #6 - SECURITY OF ASSETS**

***Finding:***

Receipts collected by PI staff are kept in an unlocked desk drawer until the time of deposit.

The State of Delaware *Budget and Accounting Manual* Chapter I states, "...departmental policies/procedures...will reasonably ensure that: All assets can be accounted for and safeguarded against waste, loss, unauthorized use and misappropriation..."

Employee error and/or lack of oversight results in undeposited funds that are not properly safeguarded.

***Recommendation:***

PI secure funds in a locked safe or drawer until the time of deposit to avoid theft.

***Auditee Response:***

PI will purchase and secure a lock box for holding checks received for work completed, prepare, and issue a policy on the use of the lock box, and will validate the policy through observations in the field. Anticipated completion date, June 30, 2006.

### **FINDING #7 – POLICIES AND PROCEDURES**

***Finding:***

PI's written policies and procedures for processing transactions are outdated and do not adequately detail the processing and approval of payments and deposits. Written policies were last updated in 1994.

Managers are responsible for establishing internal controls through written policies and procedures. Written procedures are beneficial for the training of current and new employees and are a valuable resource in the event an employee leaves PI. Policies and procedures should be updated regularly and include sufficient information to permit an individual who is unfamiliar with PI's operations to perform necessary activities. The State of Delaware *Budget and Accounting Manual* Chapter II states, "A well

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## FINDINGS AND RECOMMENDATIONS

### PRISON INDUSTRIES

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designed system of controls must include written policies and procedures to ensure that each control objective is met."

Lack of accurate and current, written policies and procedures results in insufficient policies and procedures as well as possible confusion of PI staff.

***Recommendation:***

PI update policies and procedures to properly and adequately detail the processing and approval of transactions. Policies should include:

- The identification of positions/individuals who (a) maintain the records, (b) authorize transactions, (c) reconcile the accounts, and (d) review the reconciliations;
- How accounts are maintained (manual ledgers, accounting software, etc.);
- Detailed procedures related to revenues and deposits; and
- A description of required forms (work orders, delivery tickets, etc.) and the authorizations necessary for the forms.

***Auditee Response:***

PI will review, update, and revise current fiscal policies as necessary by January 1, 2007. Since many of the business functions involved in Prison Industries should approximate private business practices, our accounting system should be more closely align with that of private business practices, reconciled to the current state accounting system. PI will issue an RFP to evaluate our business management processes for efficiency and improvement in order to help us do this. The anticipated completion date of the proposed work in the RFP – March 1, 2007.



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# FINDINGS AND RECOMMENDATIONS

## HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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### **FINDING #1 - SUPERCARDS**

***Finding:***

SuperCards issued to Howard R. Young Correctional Institution (HRYCI) staff were not deactivated in a timely manner. Two travel cards each had spending limits of \$2,000.

HRYCI policy requires that travel cards not currently in use be set to null status. Due to HRYCI oversight, although the five cards were not in use, the status of the cards was not set to null.

HRYCI did not notify the Department of Correction's (DOC) SuperCard Administrator at the completion of employees' travel. Not changing cards to null when not in use exposes the State to a greater potential loss in the event of card misuse.

***Recommendation:***

HRYCI notify the DOC SuperCard Administrator immediately upon an employee's return from travel. The DOC SuperCard Administrator immediately change the card status to null upon notification from DCC.

***Auditee Response:***

HRYCI management will quarterly review the card listing to ensure the cardholder status is null when not in use.

### **FINDING #2 – AUTHORIZATIONS**

***Finding:***

Seven out of 40 checks reviewed in HRYCI's Inmate Account and one out of ten checks reviewed in HRYCI's Employee Fund Account were signed with the Warden's signature stamp. The Warden did not apply his signature to the checks; this was done by another individual. In addition, two out of 15 checks tested in HRYCI's Commissary Account had only one signature.

HRYCI policy requires all checks to have two authorized live signatures; the Warden's signature stamp is not to be used on any financial documents.

The risk of unauthorized transactions and misappropriation of assets increases when required authorized signatures are not obtained and when facsimile stamps are utilized by a person other than whose signature is on the stamp.

***Recommendation:***

HRYCI ensure that all checks are properly authorized with two live signatures in accordance with policy and to ensure sound internal control practices. The person whose signature is on a facsimile stamp maintain possession of his/her own stamp and not allow any other person to use his/her stamp.

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## FINDINGS AND RECOMMENDATIONS

### HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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***Auditee Response:***

Effective immediately HRYCI will ensure that all checks are properly authorized with two live signatures in accordance with policy. Chronic staff shortages will be addressed through the normal budget process and by placing additional names on the authorized signature documents.

**FINDING #3 – UNTIMELY DEPOSITS**

***Finding:***

The following deposits to HRYCI's internal accounts were untimely:

- Twenty-six out of 40 deposits tested for the Inmate Account were not made timely. Seven of the deposits were one week late.
- Four out of five deposits tested for the Commissary Account were not made timely. The timeliness of the fifth deposit could not be determined due to lack of supporting documentation maintained by HRYCI. Checks from the Inmate Account, representing weekly profits, are deposited into the Commissary Account. The weekly checks were often held and deposited four at a time.

<u>Amount</u>	<u>Date Received</u>	<u>Date Deposited</u>
\$ 10,454.06	08/05/04 and 08/10/04	08/19/04
\$ 3,624.58	10/07/04 and 10/29/04	10/29/04
\$ 7,599.77	01/11/05	02/02/05
\$ 10,386.71	04/04/05 and 04/20/05	05/20/05

- Two out of three deposits tested for the Employee Fund Account were not made timely. The checks were held for over a week. The timeliness of the third deposit could not be determined due to lack of supporting documentation maintained by HRYCI.

<u>Amount</u>	<u>Check Date</u>	<u>Date Deposited</u>
\$ 621.97	08/26/04	09/30/04
\$ 719.30	02/24/05	03/18/05

The State of Delaware *Budget and Accounting Manual* Chapter VIII states, "agencies...shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

Per HRYCI, the delay in deposits was due to staff shortages. Untimely deposit of funds results in noncompliance with the State of Delaware *Budget and Accounting Manual*.

***Recommendation:***

HRYCI comply with the State of Delaware *Budget and Accounting Manual* and ensure that deposits are made timely.

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# FINDINGS AND RECOMMENDATIONS

## HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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***Auditee Response:***

HRYCI will ensure that deposits are made in a timely manner in accordance with the State of Delaware *Budget and Accounting Manual*. It should be noted that the Business Office is located in a correctional setting. Therefore, if a security issue arises within the facility, the staff may not be able to leave the facility until the security issue has been resolved.

**FINDING #4 - RECONCILIATIONS**

***Finding:***

Monthly reconciliations of HRYCI's Commissary Account (one), Inmate Account (three), and Employee Fund Account (one) were reviewed for timeliness and review. The Inmate Account reconciliations were not prepared by the 15<sup>th</sup> day of the following month and were not signed and dated by the reviewer. The Commissary and Employee Fund Account reconciliations were signed but not dated by the preparer and neither signed nor dated by a reviewer. Per HRYCI, staff shortages contributed to the delay in preparing the reconciliations.

Effective internal control procedures require that account reconciliations be performed on a timely basis to provide reasonable assurance that cash assets agree with recorded activity and to facilitate the prompt detection and correction of unrecorded or improperly recorded transactions. Untimely preparation and review of reconciliations could result in untimely identification and resolution of errors and/or inappropriate transactions. HRYCI policy requires all bank reconciliations to be completed by the 15<sup>th</sup> day of the following month.

***Recommendation:***

HRYCI prepare and review account reconciliations by the 15<sup>th</sup> of each month. The persons preparing and reviewing the reconciliations sign and date the reconciliations to denote timely completion and review.

***Auditee Response:***

HRYCI will ensure that account reconciliations are prepared and reviewed by the 15<sup>th</sup> of each month for the previous month's activities. The person responsibility for preparing and reviewing reconciliation will sign and date those reconciliations to denote timely completion and review of this process. Chronic staff shortages will be addressed through the normal budget process.

**FINDING #5 – OUTSTANDING CHECKS**

***Finding:***

A listing of outstanding checks for HRYCI's Inmate account is not included with each bank reconciliation and could not be generated for the time period requested. A review of the outstanding check listing as of May 5, 2006 revealed eight outstanding checks older than 60 days. Sixteen other checks dating back to December 1, 2005 were voided on May 3, 2006.

HRYCI's written policy requires all checks older than 60 days be voided and the amount credited back to the inmate's account.

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## FINDINGS AND RECOMMENDATIONS

### HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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In an effort to reduce the number of stop payments issued, HRYCI has allowed checks to be outstanding for 90 days before they are voided. With this in consideration, the 16 voided checks mentioned above were still older than 90 days at the time they were voided.

***Recommendation:***

HRYCI should update and adhere to its written policy regarding outstanding checks.

***Auditee Response:***

HRYCI is amending the written policy to extend the checks to 90 days. Due to the population admitted to the facility, individuals may hold onto checks for longer periods of time. The additional 30 days decreases the amount of checks that have to be stopped pay. HRYCI has requested that the information on the checks be changed to reflect, "Void after 90 days."

#### **FINDING #6 - LATE PAYMENT OF INVOICES**

***Finding:***

Nine out of 15 expenditures tested for HRYCI's Commissary Account, three out of ten expenditures tested for HRYCI's Employee Fund Account, and 11 out of 38 DFMS HRYCI expenditures were not paid within 30 days of the date of the invoice due to staffing shortages. Many invoices were not date stamped when received; therefore, the invoice date was used to determine the timeliness of payments.

The State Of Delaware *Budget And Accounting Manual* Chapter VII 10(a) states, "The State shall make every effort to issue payments to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services; if received after the invoice or bill. The agency must determine what constitutes "Received". It is recommended that agencies date and time stamp all incoming invoices or bills."

Untimely payment of invoices results in noncompliance with the State of Delaware *Budget and Accounting Manual* and could result in assessment of penalties and interest to HRYCI.

***Recommendation:***

HRYCI comply with the State of Delaware *Budget and Accounting Manual* and pay invoices within 30 days. HRYCI stamp documents when received.

***Auditee Response:***

HRYCI will stamp all incoming invoices. HRYCI will comply with the policy regarding payment of invoices within 30 days.

#### **FINDING #7 – VOIDED CHECKS**

***Finding:***

Review of the two checks voided during fiscal year 2005 for the Employee Fund Account disclosed that although "VOID" was written across the checks, the signature blocks were not removed. Review of the 78 voided checks during fiscal year 2005 for the Inmate Account disclosed that although "VOID" was

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## FINDINGS AND RECOMMENDATIONS

### HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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written across three checks, the signature blocks were not removed; the remaining 69 checks were properly voided.

HRYCI's policies for internal accounts require the following for voided checks:

- Removal of the signature section of the check.
- "VOID" written across the face of the check.

Human oversight resulted in noncompliance with HRYCI policy.

***Recommendation:***

HRYCI personnel comply with established policies and procedures and ensure voided checks are properly mutilated by removing the signature section of the check and writing "VOID" across the face of the check to prevent further alterations or reuse.

***Auditee Response:***

HRYCI will comply with policy regarding mutilation of voided checks. HRYCI will review its current policy regarding mutilation of voided checks.

#### **FINDING #8 – CASH BOX**

***Finding:***

The HRYCI Inmate Cash Box is reconciled on a daily basis and replenished with cash received from offenders upon admittance to the institution. The Account Specialist has possession of the cash box and makes disbursements and replenishments. The reconciliations are not reviewed and there are no unannounced counts of the cash box. Written policies do not address procedures for the cash box; therefore, the Account Specialist was unaware of the need for segregation of duties.

The State of Delaware *Budget and Accounting Manual* Chapter II states, "The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties. A rule of thumb in establishing proper segregation of financial duties is that the party that has access to or possession of an asset should not be the party that maintains the accounting records for the asset...when the segregation of duties is impossible or impractical, management should look for other methods of ensuring internal control such as regular periodic supervisory reviews, rotation of duties, edits built into automated systems, unannounced verification of assets, etc."

Lack of segregation of duties increases the risk of misappropriation of assets.

***Recommendation:***

HRYCI consider alternative methods of establishing internal control of the Inmate Petty Cash box such as segregation of duties, unannounced cash counts, and management review of reconciliations. HRYCI develop written policies and procedures for the cash box.

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# FINDINGS AND RECOMMENDATIONS

## HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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***Auditee Response:***

The reconciliation of the cash box is done a monthly basis. HRYCI will establish periodic supervisory reviews of the cash box as outlined in a written policy and procedure for HRYCI's cash box. Which will be completed and approved by the Warden by November 1, 2006.

**FINDING #9 – SEGREGATION OF DUTIES**

***Finding:***

HRYCI's Support Services Administrator maintains check registers, prepares checks and deposits, is an authorized signer, and reconciles the bank statements of all internal accounts with no review by management.

The State of Delaware *Budget and Accounting Manual* Chapter II states, "One of the basic and most successful methods of achieving internal control is through the segregation of duties. The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties. A rule of thumb in establishing proper segregation of financial duties is that the party that has access to or possession of an asset should not be the party that maintains the accounting records for the asset...when the segregation of duties is impossible or impractical, management should look for other methods of ensuring internal control such as regular periodic supervisory reviews, rotation of duties, edits built into automated systems, unannounced verification of assets, etc."

HRYCI incurred a severe staff shortage during fiscal year 2005. In addition to the duties of the Support Service Administrator, the same individual was also functioning in the capacity of two Account Specialists. As a result of the shortage, tasks were performed without proper segregation of duties; this increased the risk of misappropriation of assets.

***Recommendation:***

HRYCI divide the responsibilities of the vacant position(s) evenly among existing staff until the position(s) is/are filled.

***Auditee Response:***

During the timeframe in question, the office staff was depleted to one Account Technician who is primarily responsible for timekeeping/payroll duties. If not for the Support Service Administrator assuming the role of both Account Specialist and Account Technician, the Business Office would not have been operational.

Unfortunately, the duties/responsibilities of the vacant positions could not be divided among existing staff because there was an existing staff of one (1).

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## FINDINGS AND RECOMMENDATIONS

### HOWARD R. YOUNG CORRECTIONAL INSTITUTION

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HRYCI admits close to 60 percent of the Delaware Department of Correction commitment statewide. With this in mind, HRCYI will review and include in its FY08 budget request a commensurate amount of new FTEs that make it more feasible to accomplish “segregation of duties.”

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## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT OF CORRECTIONS CENTRAL BUSINESS OFFICE

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#### **FINDING #1 - DFMS AUTHORITIES**

##### ***Finding:***

The Department of Corrections (DOC) Central Business Office (CBO) processes transactions through DFMS. Employees at the prison or budget unit level are to have "view only" access to DFMS. Two employees had incorrect authority levels within DFMS:

- One employee at DCC had enter and edit capabilities instead of view only.
- One employee within DOC's Purchasing Department had approval authority and should only have been assigned enter and edit capabilities.

In accordance with the State of Delaware *Budget and Accounting Manual*, Chapter II, "proper segregation of duties requires the division of responsibility between a person with the ability to enter or change data in an automated system and a person who provides the approval for the transaction." The ability of the above employees to enter, edit, and approve transactions within DFMS was not in accordance with the Department of Correction's authorization policy.

The lack of segregation of duties increases the risk of misappropriation of assets.

##### ***Recommendation:***

DOC make the necessary adjustments to the aforementioned employees' DFMS authorization levels. DOC periodically review authorization levels of all DOC employees.

##### ***Auditee Response:***

A process was put in place over a year or two ago whereas the DOC Information Security Officer (ISO) would forward all requests for DFMS access to the Bureau Chief, Management Services for review of the access level. This process was put in place after the Bureau Chief, Management Services met and worked with the State Accountant to get all DOC DFMS users corrected.

After this had occurred, DTI then requested on a state-level that new forms be submitted for all DFMS users. Unfortunately, these did not get reviewed by the Bureau Chief, Management Services, or any other fiscal person.

Since there had not been anything in place for a periodic review, it was not known until the audit that employees had incorrect authority levels.

The Controller II is reviewing the report from the Division of Accounting and is determining the appropriate authority level for each user. She will then get new forms completed by each user; submit to the DOC ISO for processing.

At the same time, the Controller II is working with the DOC ISO to develop a process to ensure that a review is done by the designated fiscal officer for all DFMS access request. This is to include any mass update.



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## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT OF CORRECTIONS CENTRAL BUSINESS OFFICE

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The audit of the Division of Accounting listing, completion of new forms, and development of process should be completed by August 1, 2006.

#### **FINDING #2 – SUPERCARD AUTHORIZATION**

***Finding:***

Five out of eight SuperCard users' spending limits reviewed were deemed excessive based on the level of spending the cardholders incurred during the period November 1, 2005 through May 1, 2006.

<u>Location</u>	<u>Spending Limit</u>	<u>Highest Spending in One Month</u>	<u>Lowest Spending in One Month</u>	<u>Average Spending</u>
DCC	\$30,000	\$231.39 February 2006	\$0 December 2005, January, March, and April 2006	\$46.96
HRYCI	\$50,000	\$19,179.16 March 2006	\$5,004.14 February 2006	\$11,693.75
SCI	\$50,000	\$26,062.38 November 2005	\$17,326.75 April 2006	\$22,900.42
PI	\$75,000	\$97,025.17 November 2005	\$72.70 April 2006	\$32,749.38
PI	\$150,000	\$112,472.59 March 2006	\$37,466.36 February 2006	\$66,597.67

State of Delaware *Budget and Accounting Manual* Chapter II states, "Management's monitoring of and attitude toward adherence to control procedures is critical to making controls work." One of the control procedures cited is "Access to assets is limited in accordance with management's authorization." DOC reviews SuperCard spending limits on a quarterly basis, however, due to staff shortages, the SuperCard Administrator was unable to dedicate the time needed to complete this task. The resulting high spending limits expose the State to a greater potential loss in the event of card theft, loss, or fraud.

***Recommendation:***

The cards' monthly transaction limits should be evaluated and assessed at more conservative levels in order to minimize the State's exposure to loss. The Department of Correction should consider additional staffing or dividing job responsibilities among existing employees to ensure proper controls remain in place in the event of staff shortages.

***Auditee Response:***

A review of the SuperCard transactions is being done periodically and a comparison report is provided to each Budget Unit's SuperCard Coordinator. However, the comparison report has not been done on a routine basis due to staffing shortages.

The Budget Unit SuperCard Coordinators are to review the transactions of all cardholders on a weekly basis and is to review the cards' usage on at least a monthly basis to determine if a change in a

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## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT OF CORRECTIONS CENTRAL BUSINESS OFFICE

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cardholder's credit limit is necessary. A quarterly review and comparison chart will be done on a quarterly basis at the Central Office level upon the filling of an existing vacant Senior Fiscal Administrative Officer position.

#### **FINDING #3 – SUPERCARD RECONCILIATIONS**

***Finding:***

Two out of five SuperCard reconciliations tested were not prepared in a timely manner.

<u>Month</u>	<u>Date of Reconciliation</u>
01/2005	05/02/05
03/2005	05/02/05

The timeliness of the remaining three could not be determined due to lack of documentation maintained by DOC. The reconciliations are e-mailed to the Division of Accounting when completed. Neither the Department of Correction nor the Division of Accounting could provide the date the reconciliations were submitted.

*Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines control activities as policies and procedures that help ensure that management's directives are carried out. Reconciliation controls are designed to detect if two items are consistent and are an integral part of any internal control structure.

Staff shortages prevented the transactions from being reconciled in a timely manner. Untimely reconciliations may delay the detection of inappropriate transactions.

***Recommendation:***

DOC reconcile the monthly SuperCard activity within fifteen days of month end.

***Auditee Response:***

The monthly reconciliation is completed by the Central Office upon receipt of all SuperCard IV's by all budget units department-wide. Staffing shortages have hampered the timeliness in getting the reconciliation reports submitted on some occasions.

The monthly reconciliation will continue to be completed upon receipt of all SuperCard IV's. Internally, the budget unit's SuperCard Coordinators are to have the IV's submitted on a weekly basis for all transactions processed the previous week. This will then enable a timely submission at the end of the billing cycle.

The reconciliation is submitted electronically as an e-mail attachment to the Division of Accounting. A copy of the e-mail is now maintained in the reconciliation file to show when the reconciliation was submitted.

Please note that the reconciliation may not always be able to be completed within 15-days of months end as the Division of Accounting SuperCard IV may not be available in enough time. For example,

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## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT OF CORRECTIONS CENTRAL BUSINESS OFFICE

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June 2006 billing cycle ended June 27<sup>th</sup>. The Division of Accounting SuperCard IV is not available as of July 12, 2007. Perhaps the time line should be within 7-10 business days after the Division of Accounting SuperCard has been posted to Mobius.

#### **FINDING #4 – SIGNATURE STAMP**

***Finding:***

DOC CBO applies the Commissioner's signature stamp to Purchase Orders over \$2,500. The signature stamp is in additions to two live signatures. The signature stamp for the Commissioner is not maintained in a secure location and is not used by him. The signature stamp is easily accessible to unauthorized persons.

The State of Delaware *Budget and Accounting Manual*, Chapter II, defines authorization as a control objective that should be used by management and financial managers. Authorization is defined as "ensuring that all transactions are approved by management."

The maintenance and use of a signature stamp increased the risk of misappropriation of assets.

***Recommendation:***

DOC require live signatures for approval/authorization. DOC update policies and procedures to address approval and authorization.

***Auditee Response:***

The Commissioner's signature stamp is now in a secure location and only authorized persons have access to it. This finding was resolved immediately.

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# FINDINGS AND RECOMMENDATIONS

## INMATE CONSTRUCTION

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### **FINDING #1 – SEGREGATION OF DUTIES**

***Finding:***

The Inmate Construction (IC) Correctional Construction Manager creates an invoice in Microsoft Word, sends the bill to the customer, receives payment from the customer, and makes the deposit at the bank. This results in a lack of segregation of duties.

In accordance with the State of Delaware *Budget and Accounting Manual*, Chapter II, "One of the basic and most successful methods of achieving internal control is through the segregation of duties. The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties. A rule of thumb in establishing proper segregation of financial duties is that the party that has access to or possession of an asset should not be the party that maintains the accounting records for the asset...when the segregation of duties is impossible or impractical, management should look for other methods of ensuring internal control such as regular periodic supervisory reviews, rotation of duties, edits built into automated systems, unannounced verification of assets, etc."

Due to minimal staff levels within IC, tasks are performed without proper segregation of duties which increases the risk of misappropriation of assets.

***Recommendation:***

Inmate Construction separate the billing and collection processes to ensure proper segregation of duties.

***Auditee Response:***

A policy will be established requiring the Prison Industries Precast Plant (Inmate Construction) to forward completed billings (work orders and stock orders) to the PI business office for invoicing and collections. Policy written and issued by November 1, 2006.

### **FINDING #2 – ACCOUNTING SYSTEM**

***Finding:***

The current method of tracking work orders, job costs and revenues is tedious and antiquated. Invoices are created in MS Word and IV's are tracked using an Access Database. A summary of the annual volume of transactions for IC is as follows:

<u>Type of Transaction</u>	<u># of documents</u>	<u>\$ of documents</u>
CR	15	\$116,161.40
IV (seller)	7	37,305.00
PV	51	30,806.73
IV (buyer)	160	114,311.66

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## FINDINGS AND RECOMMENDATIONS

### INMATE CONSTRUCTION

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Management's responsibility is to ensure accounting transactions are accurate, cost effective, and efficiently maintained. The manual method decreases the efficiency of staff and increases the risk of inaccurate and/or incomplete data.

***Recommendation:***

Beginning in fiscal year 2006, IC was combined with Prison Industries (PI). In order to maintain accurate accounting records in an efficient manner, PI (which includes IC) should consider purchasing accounting software. Many accounting software products are relatively inexpensive and can provide a multitude of benefits to the accounting staff resulting in increased efficiency and accurate data.

***Auditee Response:***

PI has purchased a copy of the Enterprise Version of QuickBooks and will work to make this system available at the shop levels. Anticipated completion date, June 20, 2007.

#### **FINDING #3 – CASH RECEIPTS**

***Finding:***

Four out of four cash receipts documents (CR's) tested at IC were not processed on the date of deposit. The timeliness of the four deposits could not be determined due to lack of supporting documentation maintained by IC.

<u>Amount</u>	<u>Date Funds Received</u>	<u>Deposit Date</u>	<u>CR Process Date</u>
\$10,475	Unknown	03/17/05	04/15/05
\$13,701	Unknown	04/21/05	05/13/05
\$11,111	Unknown	01/20/05	01/26/05
\$12,526	Unknown	03/02/05	03/22/05

State of Delaware *Budget and Accounting Manual* Chapter VIII 5 states, "A report of cash receipts (CR) will be submitted for each day's deposits by all agencies and schools whose employees are authorized to accept remittances on behalf of the State Treasurer. A cash receipt(s) should be prepared for all deposit tickets with the same bank encoded date. The encoded date of deposit should be entered as the CR transaction date (in the CR header)." In addition, "All monies...are to be deposited on the day of receipt...(or) when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

Untimely deposits and preparation of CR's results in noncompliance with the State of Delaware Budget and Accounting Manual. In addition, differences in the dates of deposits and the dates on the CR's complicate the monthly bank reconciliation process.

***Recommendation:***

IC comply with the State of Delaware *Budget and Accounting Manual* and ensure that deposits are made timely. IC prepare CR's on a timely basis using the date of deposit.

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## FINDINGS AND RECOMMENDATIONS

### INMATE CONSTRUCTION

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***Auditee Response:***

PI will seek a solution to make timely deposits through the use of technology that will allow automatic check processing. CR's will be prepared on a timely basis as required. Equipment is to be installed and functional by October 1, 2006.

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## DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

The Honorable Jennifer W. Davis, Budget Director, Office Management and Budget

The Honorable Richard S. Cordrey, Secretary, Department of Finance

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Carl Danberg, Attorney General, Office of the Attorney General

Department of Correction

Mr. Stanley W. Taylor, Jr., Commissioner, Department of Correction

Mr. Paul W. Howard, Chief, Bureau of Prisons

Mr. Thomas L. Carroll, Warden, Delaware Correctional Center

Mr. Raphael Williams, Warden, Howard R. Young Correctional Institution

Mr. Rick Kearney, Warden, Sussex Correctional Institution

Mr. Terry Martin, Director, Prison Industries

Other

Ms. Trisha Neely, Director, Division of Accounting

## APPENDIX A – CONTROL STRENGTHS

The following control strengths were identified:

#	Strength	Institution/ Section	Process	Control Strength
1	Cash receipt transactions were properly approved/authorized as evidenced by a live signature on the cash receipt document.	PI & IC	Revenue Generation	Authorization
2	Cash receipt transactions were supported by adequate documentation and were properly coded and recorded.	PI & IC	Revenue Generation	Compliance
3	Expenditure transactions were properly approved as evidenced by signatures on the financial documents.	DCC, SCI, HRYCI, & PI	Procurement	Authorization
4	Expenditure transactions were properly coded and supported by adequate documentation.	DCC, SCI, HRYCI, & PI	Procurement	Compliance
5	SuperCard transactions were for State business only and were supported by credit card receipts.	DCC, SCI, HRYCI, & PI	Procurement	Compliance
6	Employee reimbursement requests were submitted timely.	DCC, SCI, & HRYCI	Procurement	Compliance
7	Employees have “view only” access to DFMS. DOC Central Business Office inputs all documents and adds vendors to DFMS.	SCI, HRYCI, PI, & IC	Revenue Generation & Procurement Process	Segregation of Duties Authorization
8	Central Business Office Senior Accountant maintains her signature stamp and is the only person who uses it.	CBO	Revenue Generation & Procurement Process	Authorization
9	Payment of vendor invoices was made timely.	SCI	Accounts outside of DFMS	Compliance
10	Checks from the Commissary, Inmate, and Employee Fund accounts were properly approved as evidenced by signatures on the financial documents.	DCC & SCI	Accounts outside of DFMS	Authorization
11	Inmate Program checks were properly approved as evidenced by signatures on the financial documents.	DCC, SCI, & HRYCI	Accounts outside of DFMS	Authorization
12	Receipts were issued for Inmate Account deposits and “Pay-To” slips were used to authorize Inmate Account disbursements.	DCC, SCI, & HRYCI	Accounts outside of DFMS	Authorization
13	The checks were reviewed and researched in a timely manner if outstanding for more than 90 days.	SCI	Accounts outside of DFMS	Reconciliation
14	No checks were made out to cash or bearer and checks were pre-numbered and used in sequence.	DCC, SCI, & HRYCI	Accounts outside of DFMS	Authorization
15	The unused check stock for bank accounts was properly maintained in a locked area.	DCC, SCI, & HRYCI	Accounts outside of DFMS	Authorization
16	Voided checks were properly mutilated and retained.	SCI	Accounts outside of DFMS	Compliance



## APPENDIX A – CONTROL STRENGTHS

#	Strength	Institution/ Section	Process	Control Strength
17	Employee Fund Account deposits were made timely.	SCI	Accounts outside of DFMS	Compliance
18	Monthly bank reconciliations were timely prepared and reviewed.	SCI	Accounts outside of DFMS	Reconciliation
19	Cash boxes are maintained in a locked safe and reconciliations are completed timely. Expenditures did not exceed the established limits.	HRYCI	Accounts outside of DFMS	Reconciliation Compliance
20	Cash boxes are maintained in a locked safe and reconciliations are completed timely and approved. Expenditures did not exceed the established limits.	DCC	Accounts outside of DFMS	Reconciliation Compliance
21	Cash boxes are maintained in a locked safe and reconciliations are completed timely and approved.	SCI	Accounts outside of DFMS	Reconciliation
22	A customer initiates a work order and signs it denoting approval of the estimated cost. A delivery ticket is created at the time the completed work is picked up and a copy is provided to the customer as a receipt.	PI	Revenue Generation	Authorization
23	Travel requests are approved via a Travel Training Form.	DCC, SCI, HRYCI, & PI	Procurement	Authorization
24	Cash boxes are maintained in a locked drawer and reconciliations are completed timely and approved.	PI	Accounts outside of DFMS	Reconciliation